HOUSING MARKET OUTLOOK

Trois-Rivières CMA

Canada Mortgage and Housing Corporation

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Pace to slow down in 2009 and 2010 on the Trois-Rivières residential real estate market

Activity on the residential real estate market will slow down over the next two years in the Trois-Rivières census metropolitan area (CMA). The vigorous activity will decline on the new home market, the resale market and the rental market. The sluggish job market will be partly responsible for this slowdown. On the other hand, financing conditions, which will stay favourable, and migration, which remains strong in the Trois-Rivières area, will limit the expected downturn of the residential real estate market.

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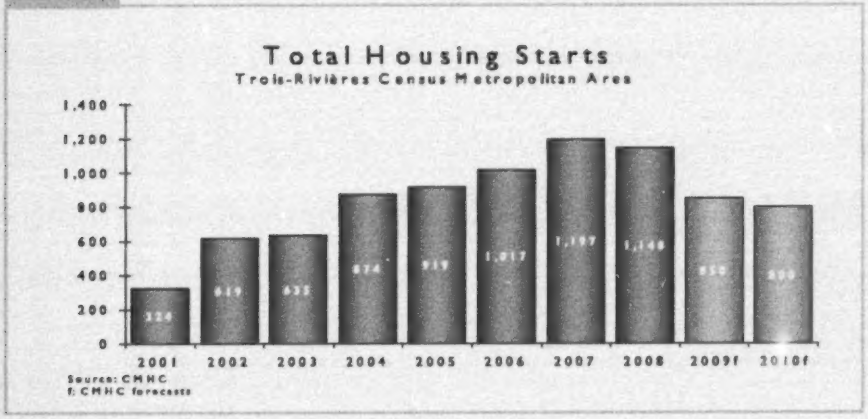

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Economy will be sluggish

The job market downturn, which began in 2008, will continue in 2009 and 2010 in the Trois-Rivières CMA. The slowdown, which started to be felt in the second half of 2008, will therefore persist over the next two years.

The manufacturing sector, a major component that accounts for more than 20 per cent of the regional economic activity, is raising some concern. Hit by a drop in demand resulting from the global economic slowdown, manufacturers in the Trois-Rivières area are having more and more difficulty. What's more, their key business partner, the United States, is going through a period of significant economic turmoil. The manufacturing companies in the CMA are therefore dependent on the economic health of our neighbours to the south. As such, it is hard to imagine that demand will pick up until the U.S. economy posts renewed vigour and energy. The residential construction sector, which has had some good years recently, will also be somewhat less active in 2009 and 2010. Annual starts will consequently fall below the 1,000-unit mark.

However, a few projects will revitalize the regional economy. In the wake of government plans to stimulate and support the economy, the Trois-Rivières area will benefit from several infrastructure projects. The Port of Trois-Rivières modernization project is ongoing, while the construction of the canola seed and soybean crushing plant that got under way in 2008, in Bécancour, should be completed at the end of 2009. The extension of the airport runway, which will allow many more planes to land, will give a boost to companies specializing in aeronautics. Finally, in the medium term, the renovation of the Hydro-Québec Gentilly-2 nuclear power station will also stimulate the Trois-Rivières economy.

Still, the decline in employment, which reached 1.1 per cent in 2008, will intensify in 2009, as a drop of 3.5 per cent is expected. In 2010, if the scenario of a progressive recovery of the U.S. economy comes about, the decrease in the number of jobs will be less pronounced (-0.5 per cent).

Figure 2

Demographics and migration will modulate the housing market

The potential housing demand indicator that is household formation will remain relatively stable in 2009 and 2010 in the Trois-Rivières CMA. According to the projections established by the Institut de la statistique du Québec, just under 440 new households will be formed annually. However, an analysis by age group reveals opposing forces at work. In fact, a marked slowdown can be noted in the formation of younger households (25 to 34 years), as well as a decline in middle-aged households. Conversely, older households (55 years or older) are on the rise. Much like several other areas across Quebec, the CMA is therefore characterized by demographics whereby many young worker households leave the area and then come back, most often, when they retire. This phenomenon, which will intensify over the coming years, will shape housing demand in the Trois-Rivières area.

As well, migration, which has exploded in the CMA in recent years, will remain strong in 2009 and 2010. In fact, net migration levels, which were negative at the beginning of the decade, reached 700 to 800 people in recent years. They will stay relatively high for the next two years, stimulating the housing market in the area and, more particularly, rental housing demand.

Mortgage rates to remain low

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in Government of Canada bond yields. For 2010, the one-year posted mortgage rate will be in the 4.75-6.00 per cent range, while the three- and five-year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Residential construction expected to moderate

After four very active years in the Trois-Rivières CMA, the pace of activity will slow down in 2009 and 2010. Annual starts will therefore fall below the 1,000-unit mark over the next two years, as a result of the decline of the job market and the easing of the resale market. In fact, the progressive increase in properties for sale on the market will dampen demand for new homes. Rental housing starts will also be slightly lower, partly explaining the anticipated slowdown in 2009 and 2010. Such starts, which have accounted for almost half of all starts for five years now, will register a small decrease. However, the favourable financing conditions, as well as migration, will support residential construction over the next two years.

Consequently, total starts will drop by 26 per cent in 2009, reaching 850 units, compared to 1,148 a year earlier. The decline will be less pronounced in 2010, when 800 starts should be enumerated in the Trois-Rivières area (-6 per cent). Despite these decreases, it should be specified that the level of activity in the Trois-Rivières CMA will stay relatively high over the next two years. In fact, the anticipated volumes will remain above the annual average of 750 starts for the last 10 years.

The expected decline will affect both single-detached home building and multiple-unit housing construction. Single-detached home starts will fall by 13 per cent in 2009 and then by 5 per cent in 2010. Foundations will be laid for a total of 325 single-detached houses in 2009 and 310, in 2010. The same scenario will occur in the semi-detached and row home segment, where 100 starts should be enumerated in 2009 (-36 per cent) and as many in 2010. Even if rental housing construction will slow down in 2009 and 2010, the expected volumes will remain historically high. The persistently low vacancy rate will continue to stimulate the construction of such dwellings. In 2009, 415 rental housing starts will therefore be recorded in the CMA (-25 per cent), and 375 more will be registered in 2010 (-10 per cent). Lastly, about 10 condominium units will get under way in 2009 and 2010.

Resale market to slow down slightly

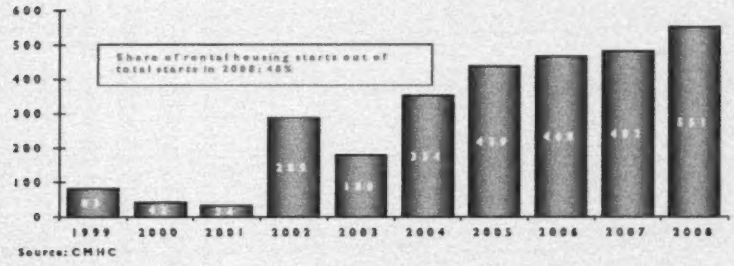
The Trois-Rivières CMA resale market will slow down somewhat in 2009, as a result of a less dynamic job market and the economic uncertainty. On the other hand, financing conditions, which will remain very favourable, and the anticipated increase in listings will limit the decrease in sales. In all, 760 single-family homes will therefore change hands in 2009, down from 799 a year earlier (-5 per cent).

Next year, a few factors will contribute to stabilizing sales, including the more moderate slowdown of the job market, the less significant decline in the formation of young households (25 to 34 years), the low mortgage rates and the rise

Figure 3

Rental Housing Starts Supporting Residential Construction

Trois-Rivières Census Metropolitan Area



Source: CMHC

in the number of properties for sale on the market. Transactions will therefore reach a total of 750 units (-1 per cent) in 2010.

As for prices, the increases will be much less considerable. The easing of the market will continue in 2009 and intensify in 2010. In fact, the anticipated decrease in sales, combined with the rise in the supply of properties for sale on the market, will drive up the seller-to-buyer ratio. Despite this easing, the market will remain favourable to sellers in 2009 (ratio below 8 to 1), before progressively becoming balanced by the end of 2010. Consequently, there will significantly less upward pressure on prices.

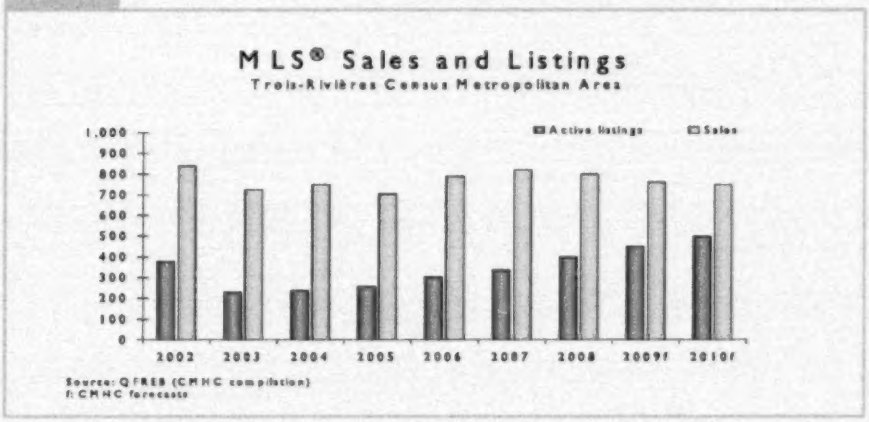
The growth in the average price of single-family homes will therefore reach 3 per cent in 2009 and 2.7 per cent in 2010. The strong price hikes registered in the Trois-Rivières area in recent years—10 per cent, even 15 per cent—are now in the past. Over the next few years, the price increases should be close to inflation.

Rental market to ease slowly

The strong migration in recent years, combined with the low levels of rental housing construction at the end of the last decade and the beginning of the current one, caused the market to tighten significantly. The vacancy rate fell from 7 per cent in 2000 to just 1.5 per cent three years later. Since then, even though rental housing construction volumes reached record levels, demand has remained strong. As a result, the market stayed tight and the vacancy rate, relatively low.

In 2009, rental market conditions in the Trois-Rivières CMA will remain stable. The many rental housing units built at the end of 2008 and the ones that will be started in 2009 will meet part of the demand. Like in past years, however, the still high net migration levels anticipated in 2009 and 2010 will put significant upward pressure on demand for rental housing. By October 2009, the vacancy rate in the Trois-Rivières CMA will therefore reach 1.8 per cent (compared to 1.7 per cent a year earlier). In 2010, the market will ease marginally, and the vacancy rate will attain 2.0 per cent.

Figure 4



Forecast Summary
Trois-Rivières CMA
Spring 2009

	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	789	821	799	760	-4.9	750	-1.3
MLS® Active Listings	304	335	399	450	12.8	500	11.1
MLS® Average Price ($)	117,977	133,544	141,610	146,000	3.1	150,000	2.7
New Home Market							
Starts:							
Single-Detached	372	430	373	325	-12.9	310	-4.6
Multiples	645	767	775	525	-32.3	490	-6.7
Starts - Total	1,017	1,197	1,148	850	-26.0	800	-5.9
Average Price ($):							
Single-Detached	176,831	184,966	195,052	205,800	5.5	216,100	5.0
Median Price ($):							
Single-Detached	165,000	170,000	180,000	188,100	4.5	197,000	4.7
New Housing Price Index (% chg) (Que.)	4.4	4.2	5.0	n.d.	_	n.d.	_
Rental Market							
October Vacancy Rate (%)	1.0	1.5	1.7	1.8	_	2.0	_
Two-bedroom Average Rent (October) ($)	488	487	505	515	_	525	_
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	_	5.29	_
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	_	5.94	_
Annual Employment Level	67,325	70,775	69,975	67,525	-3.5	67,185	-0.5
Employment Growth (%)	-3.0	5.1	-1.1	-3.5	_	-0.5	_
Unemployment rate (%)	8.1	7.8	8.0	8.5	_	8.0	_
Net Migration [1]	772	825	850	700	-17.6	700	0.0

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), The Quebec Federation of Real Estate Boards by Centris™ (CMHC compilation), Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 and 2008 migration data are forecasted

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